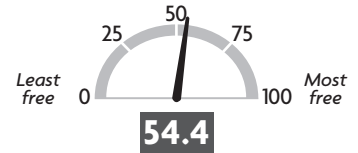


YEMEN

Economic Freedom Score



World Rank: **121**

Regional Rank: **14**

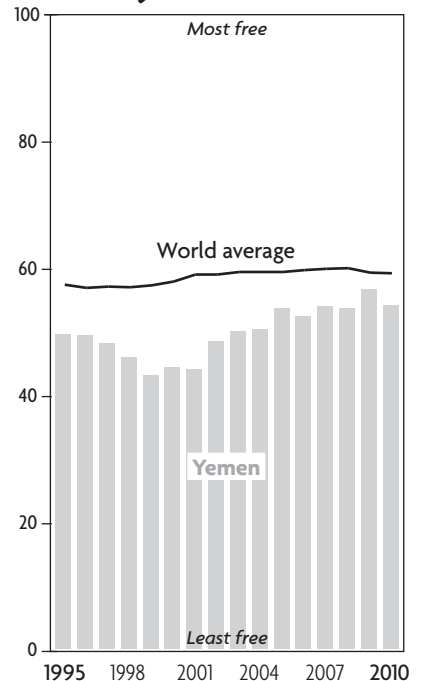
Yemen's economic freedom score is 54.4, making its economy the 121st freest in the 2010 *Index*. Its score is 2.5 points lower than last year, reflecting deterioration in seven of the 10 economic freedoms. Yemen is ranked 14th out of 17 countries in the Middle East/North Africa region, and its overall score is lower than the world and regional averages.

The Yemeni economy is constrained by a limited productive base. Oil and agriculture still account for about 40 percent of GDP, rendering economic growth vulnerable to oil price fluctuations and other external shocks. Efforts to diversify the economic base have resulted in a growing services sector. The regulatory environment has also become more efficient and streamlined.

A series of reform measures, including reforms in public finance management and the legal framework, have been introduced, but many have not been fully implemented or face considerable delays. Pervasive government interference in the economy and an underdeveloped financial sector constrain the entrepreneurial environment and development of a more vibrant private sector. Widespread corruption remains the most serious impediment to Yemen's overall economic freedom.

BACKGROUND: Yemen is one of the poorest countries in the Arab world. Following the union between North and South Yemen in 1990, the central government's authority was challenged by a southern secessionist movement that was defeated in 1994. President Ali Abdallah Saleh, former president of North Yemen, continues to face intermittent challenges from unruly tribes and Islamic extremists who oppose his government's moderate foreign policy, cooperation with the United States in the war against terrorism, and efforts to modernize and reform Yemen both politically and economically. The government began an economic reform program in 2006 to strengthen the non-oil sectors and attract foreign investment, but declining oil production, terrorist attacks, clashes between Sunni and Shia Muslims, and kidnappings have undermined tourism and foreign investment.

Country's Score Over Time



Quick Facts

Population: 23.1 million

GDP (PPP): \$55.3 billion

3.9% growth in 2008

4.0% 5-year compound annual growth

\$2,400 per capita

Unemployment: 16.5%

Inflation (CPI): 19%

FDI Inflow: \$463 million

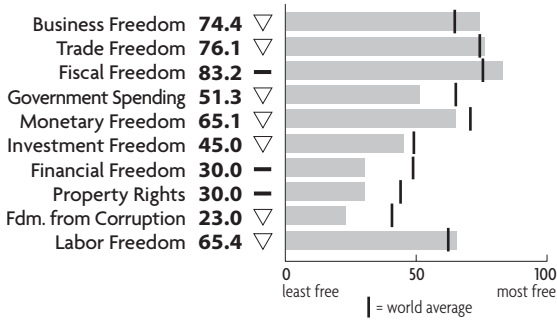
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

YEMEN'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 74.4

The overall freedom to start, operate, and close a business is relatively well protected under Yemen's regulatory environment. Starting a business takes an average of 12 days, compared to the world average of 35 days, although the entry cost of launching a business is high. Obtaining a business license takes less than the world average of 18 procedures and 218 days. Bankruptcy proceedings are relatively straightforward.

TRADE FREEDOM — 76.1

Yemen's weighted average tariff rate was 6.9 percent in 2006. Some import bans and restrictions, import taxes, import licensing requirements, weak enforcement of intellectual property rights, inefficient customs administration, and corruption add to the cost of trade. Ten points were deducted from Yemen's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 83.2

Yemen has a low income tax rate but a burdensome corporate tax rate. The top income tax rate is 20 percent, and the top corporate tax rate is 35 percent. Other taxes include a general sales tax (GST), a property tax, a fuel tax, and a religious tax on net wealth. In the most recent year, overall tax revenue as a percentage of GDP was 7.3 percent.

GOVERNMENT SPENDING — 51.3

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 40.3 percent of GDP. Low oil prices and fuel subsidies, combined with growing social expenditures have resulted in a widening fiscal deficit.

MONETARY FREEDOM — 65.1

Inflation has been high, averaging 13.8 percent between 2006 and 2008, but fell sharply in 2009 as a result of a steep decline in the prices of foodstuffs and other commodities. The government controls the prices of pharmaceuticals and petroleum products and influences prices through regulation, subsidies, and state-owned enterprises and utilities. Ten points were deducted from Yemen's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 45

The government officially permits foreign investment in most sectors and grants equal treatment to domestic and foreign investors. Foreign investment in the oil, gas, and minerals sector is subject to production-sharing agreements. While the government has made progress toward improving the investment regime, investment-related laws and regulations can be non-transparent and inconsistently applied, and the state remains an important presence in the economy. Dispute resolution and contract enforcement are unreliable. Foreign exchange accounts are permitted. There are no restrictions on payments and transfers, and capital transactions are subject to few restrictions. Foreign investors may own land.

FINANCIAL FREEDOM — 30

Yemen's small financial system remains underdeveloped and dominated by the state. Financial regulation is rudimentary. Credit to the private sector accounts for less than 10 percent of GDP, and the limited availability of financing precludes more vibrant entrepreneurial activity. Yemen's undercapitalized banking sector consists of about 17 banks, four of which are foreign-owned. The banking sector is inefficient and burdened with non-performing loans. The government has total ownership of the National Bank of Yemen and majority ownership of three other specialized banks. Commercial lending is limited to a small circle of clients, partly because of legal inability to collect overdue debts. The non-bank financial sector is small, capital markets are not developed, and there is no stock market. An improved bill to combat money laundering and the financing of terrorism was approved by the Yemeni Council of Ministers in late 2007 but was still pending in parliament in early 2009.

PROPERTY RIGHTS — 30

The judiciary is subject to government pressure and corruption. Contracts are weakly enforced. Foreigners may own property, but foreign firms must operate through Yemeni agents. Protection of intellectual property rights is inadequate.

FREEDOM FROM CORRUPTION — 23

Corruption is perceived as pervasive. Yemen ranks 141st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. The civil service is overstuffed, underpaid, and highly vulnerable to corruption. Illicit activities include soliciting and paying bribes to facilitate or obstruct projects, leveraging dispute settlements, skewing taxation and customs tariff augmentations, and engaging in family or tribal nepotism.

LABOR FREEDOM — 65.4

Yemen's labor regulations are relatively flexible. The non-salary cost of employing a worker is low, but dismissing an employee can be burdensome.